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Europe's global sourcing market: Executive summary

Trends, growth and prospects

A report by Everest
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Egypt **on**

Executive summary

A. Introduction and context

Global sourcing of services is an established phenomenon, and the market represents U.S.\$92-96 billion in revenues across IT and BPO services. Companies across the world are increasingly leveraging global sourcing as a key enabler of competitive advantage. Whilst the U.S. has traditionally been the largest source market, Europe has assumed increasing significance over the past few years.

This thought leadership report provides perspectives on the current state and future outlook of the European global sourcing market. The report also compares global sourcing supply locations that serve the European market.

B. Current state of the European global sourcing market

The European global sourcing market is large and is estimated to be U.S.\$26-30 billion. Europe accounts for ~30% of the overall global sourcing market. Further, global sourcing adoption in Europe has spread across countries, verticals, and functions, as illustrated in Exhibit 1.

Global sourcing adoption has spread across European countries. However, the extent of adoption differs, as illustrated in Exhibit 2. The UK is the largest and most evolved global sourcing market in Europe. Within Continental Europe, while Germany and France are the largest markets in terms of size, Benelux and the Nordics are more evolved in terms of the extent of adoption. As Exhibit 2 illustrates, there are multiple socio-political, economic and environmental issues that drive differences among European countries.

Overall, while global sourcing adoption in Europe (especially in Continental European countries) is less than that of the U.S., Europe's global sourcing market has grown faster. This growth was traditionally driven by European headquartered multinationals, who faced pressures to remain competitive with their global/U.S. counterparts. The growth is now driven by adoption spreading to regional/local firms in Europe, in addition to increasing adoption among European multinationals.



Exhibit 1: European global sourcing market size across countries, verticals, and functions

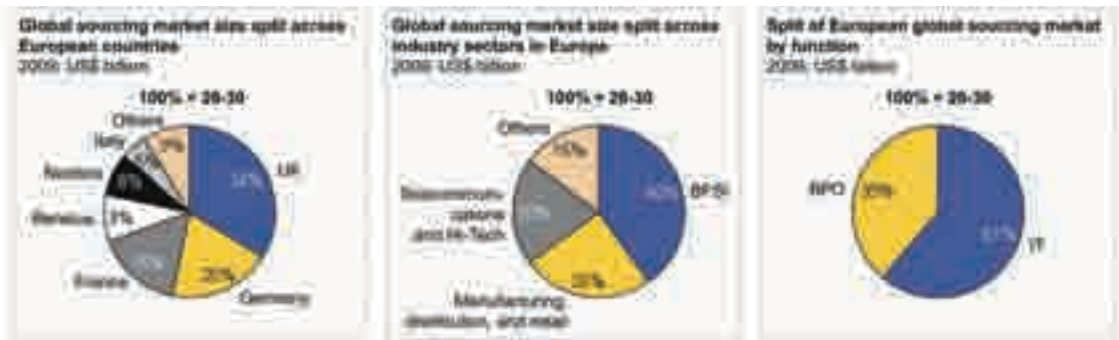
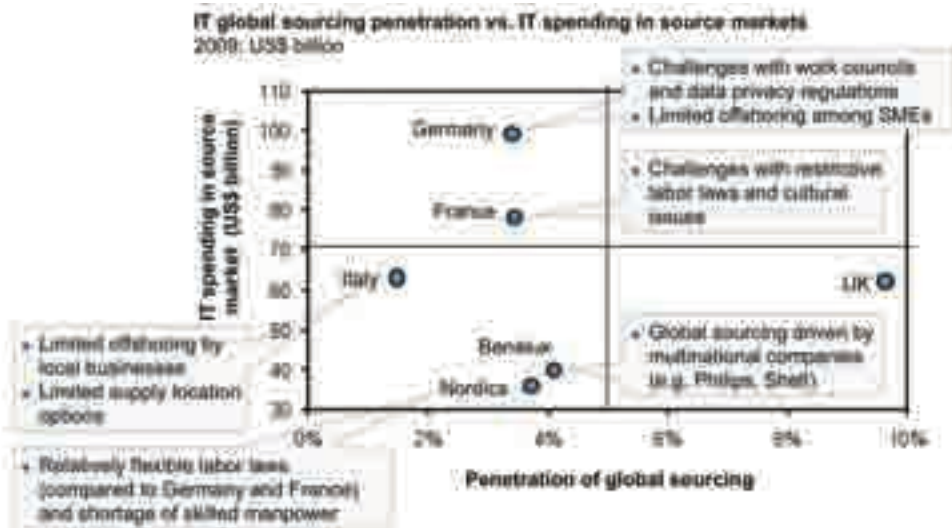


Exhibit 2: Differences in global sourcing adoption across European countries



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C. Future outlook of the European global sourcing market

The potential European global sourcing market opportunity (2020) is huge (U.S.\$250-300 billion), which is 10-11 times current size. While IT accounts for the larger share of the current market, the opportunity is larger in BPO (~70% of the opportunity). Significant untapped opportunity exists across most European countries (>U.S.\$25 billion each), with Germany, France, and UK being the largest. Also, the opportunity is spread across verticals, with Banking, Financial Services, and Insurance accounting for the largest share (60-70%).

There are multiple drivers of growth in the European global sourcing market. These include increasing costs and competitive pressures, shortage of skills, global expansion of firms, and the increasing proof of concept among peers. Furthermore, increasing adoption among untapped segments (e.g. small and medium enterprises, large local firms) could drive higher growth. However, some challenges exist ahead of growth. These include politico-economic considerations, concerns with the sovereign debt crisis, regulations (e.g. data protection, labor laws), work councils, and cultural issues. These are real challenges especially in continental European countries. However, firms have managed to leverage global sourcing operating within market constraints.

Overall, while there is huge opportunity, actual market growth will be influenced by a combination of environmental, regulatory, and adoption factors. Growth rates could range between 10 and 30%, as illustrated in Exhibit 3.

D. Comparison of global sourcing locations

The global sourcing location landscape serving Europe has evolved rapidly. There are 75+ cities that currently serve Europe across four key supply regions: Central and Eastern Europe (CEE), Africa, South Asia (including India), and Latin America. The report compares these locations across three key factors in the context of the European market: 1) Talent Pool 2) Costs, and 3) Risks.

D1. Talent pool

Countries offer distinct leverage points in serving the European market given their scale and language skills (Exhibit 4):

- CEE countries (e.g. Poland) offer a multilingual option, given the breadth and quality of language skills
- Countries in the Maghreb region (e.g. Morocco) are predominantly suited to support large-scale French work
- India and South Africa predominantly offer a large-scale, English language proposition
- Egypt offers a good blend of scale coupled with European language diversity, and is suited to support large-scale English work along with multiple European languages (French, German, Spanish, and Italian) at a moderate scale



Exhibit 3: European global sourcing market growth scenarios

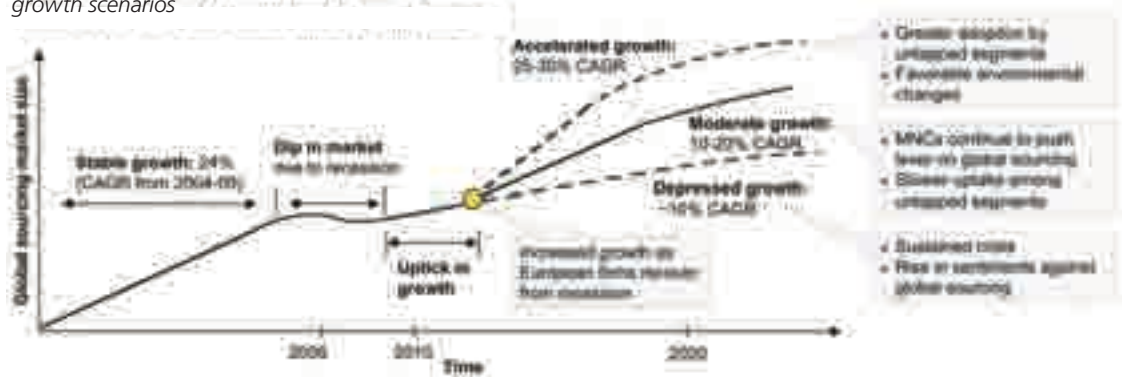


Exhibit 4: Talent pool attractiveness to serve European market



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D. Comparison of global sourcing locations (cont.)

D2. Costs

Exhibit 5 provides a comparison of the fully loaded cost of operations across supply locations serving Europe:

- India, Philippines, and Egypt are among the lowest cost destinations for English language work
- Mauritius and Egypt offer attractive low-cost propositions to serve the French market
- Egypt offers a significant cost advantage over North African and CEE countries. Further, the ability to support English coupled with multiple European languages (though at moderate scale) provides additional leverage

D3. Risks and other structural factors

CEE countries have structural advantages given their EU status and proximity to Europe. These locations also offer good infrastructure and quality of life. However, there are some concerns with economic stability (especially in Hungary). Egypt provides a conducive environment given the strong government support and the multiple talent development initiatives being undertaken.

D4. Summary of locations comparison: Cost-risk tradeoffs

Exhibit 6 provides a relative assessment of locations, highlighting the trade-offs that investors need to make:

- CEE countries have clear advantages in terms of breadth of language skills. However, these have higher costs
- Morocco and Tunisia offer a strong fit if scalability in French is key, although are not the lowest cost destinations
- Egypt is well positioned to serve as a low-cost, multilingual hub for pan-European corporations. To this effect, there are multiple successful examples of service delivery from Egypt. Additionally, Egypt is suited to be a scalable alternative to India/Philippines for English language work and as a gateway to the Middle East for European companies



Exhibit 5: Cost comparison

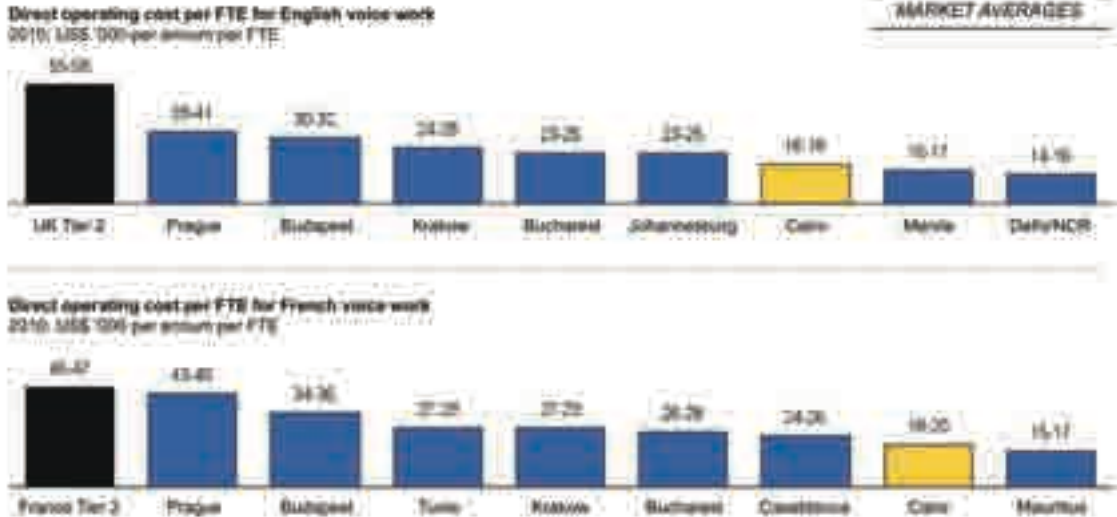


Exhibit 6: Cost-risk tradeoffs for serving the European market

